

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **September 30, 2003, Work Session**

AGENDA ITEM NO.: 7

CONSENT:

REGULAR: **X**

CLOSED SESSION:

(Confidential)

ACTION: **X**

INFORMATION:

ITEM TITLE: **Draft Compensation Philosophy**

RECOMMENDATION: Provide comments and endorse the Draft Compensation Philosophy.

SUMMARY: The attached Draft Compensation Philosophy is offered for Council's discussion and comment. Once the philosophy is adopted, work will commence on preparing a pay plan consistent with the philosophy.

PRIOR ACTION(S): Directed to draft a Compensation Philosophy during Council's retreat.

FISCAL IMPACT: N/A

CONTACT(S): Kimball Payne

ATTACHMENT(S): Draft Compensation Philosophy

REVIEWED BY: lkp

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City of Lynchburg Compensation Philosophy

The **mission** of the employees of the City of Lynchburg is to deliver services to City residents, workers and visitors in an efficient, effective and equitable manner and to build a stronger community. This is an inherent component of the City's overarching mission of responsive, effective local government.

The **goal** of the City of Lynchburg's compensation program is to attract, reward and retain employees who are qualified, competent and representative of the community so that the delivery of services can be maintained at acceptable levels.

The City will develop and maintain a **Pay Plan** guided by the following **principles**:

- Public service is an admirable occupation and the employees who have dedicated themselves to the service of the City's residents are to be valued.
- City employees shall be provided fair compensation, in both pay and benefits, that reflects market competitiveness and recognizes performance that supports organizational goals.
- Each City employee is a unique individual, with his or her unique and particular needs and aspirations. No compensation program can accommodate every individual circumstance. Rather, the intent is to have a program that reasonably provides choices and the flexibility to assist employees in achieving their goals, while encouraging individual responsibility and reflecting the prevailing market environment.
- The Pay Plan must be fiscally responsible and affordable; it will always be constrained by resource availability.
- The Pay Plan should be rational and based on clear guidelines that can be easily understood and communicated.
- Differences in compensation for reasons other than job duties and responsibilities, performance, qualifications or longevity are inappropriate. Specifically, there shall be no discrimination related to race, color, national origin, religion, gender, age, disability or political affiliation.

It is recognized that pay is only one determinant of employee satisfaction and may be secondary to the work itself and the work environment. Accordingly, the City will strive to maintain a **positive work environment** characterized by:

- a focus on employee safety
- adequate work space
- appropriate equipment
- effective management practices and positive management attitude
- consistent, effective and efficient policies and procedures
- workforce training and development
- opportunities for selection and promotion from within
- recognition for sustained high performance or significant achievement through monetary and non-monetary measures

The City's compensation program will:

- consider total compensation, including salary and non-salary benefits.
- assure that like jobs are valued with comparable methodology and are treated similarly in terms of base pay
- promote a focus on individual contributions and performance that advances organizational and departmental missions and outcomes
- manage pay ranges around the relevant market average for comparable work
- consider relevant market data, internal equity, knowledge, skills and abilities, length of service in the job and level of performance in setting individual pay
- provide a mix of benefits comparable to the market
- provide incentives for employees to aspire to high levels of performance
- be fiscally constrained

The **City Pay Plan** will include a series of pay grades and associated open ranges of approximately 50% width, based on market averages and including a minimum set 20% below the market average and a maximum set approximately 30% above the market average.

Each position will be assigned to a specific pay grade in the City Pay Plan based on market information, organizational need, available resources and internal alignment.

Alternate pay systems may be implemented based on unique business needs and, to the greatest extent possible, shall be consistent with the overall compensation philosophy.

Market is defined through an analysis of those employers considered to be competitive for personnel similar to those employed by the City. Ideally, the

analysis will look at other organizations of similar size, cost of living, service delivery requirements and organizational structure. Generally, this will include Virginia's First Cities, local governments in the region, and private sector employers as appropriate. When conducting an analysis for market competitiveness, non-salary benefits will be considered.

A goal is to maintain pay plan competitiveness with the market both in ranges and in individual pay over a three-year period.

Entry level pay rates should attract applicants with the basic skills needed to perform the job and the ability to quickly learn the specific requirements of the position.

The City should be able to hire individuals with experience from other localities or businesses and to place them on the pay range at the appropriate salary without causing problems among current employees. This implies two things:

- Employees with relevant experience (both quantitative and qualitative) and demonstrated competence can be brought in above the range minimum.
- The pay of current employees with experience comparable to those new employees, should be comparable (assuming satisfactory performance).

“Competence” in a position means that the incumbent is fully trained and fully functional, able to carry out all of the responsibilities of the position with little or only routine supervision and performs at an acceptable level.

While competence can be demonstrated earlier or later, based on the complexity of a particular job and individual experience and performance, competence in a position should be expected in 4-7 years under normal circumstances.

Once an employee has achieved “competence” in his or her position, pay below 85% of the market is generally unacceptable.

Advancement through a pay range will be tied to **performance** (effectiveness, demonstrable skills and competencies that produce outcomes/results contributing to the achievement of the organization's mission and goals) and may reflect **longevity** (length of service).

Longevity may also be recognized through indirect compensation.

Pay Plan Adjustment

When considering whether or not adjustments need to be made to the pay plan, no single measure will be considered in isolation. Management judgement is important.

Evidence that the pay ranges for specific positions or job categories need to be reevaluated will be demonstrated by significant variance from the market, excessive turnover, and difficulty recruiting.

An indication of a pay range varying significantly from market would be minimum salaries less than 80% of the market average.

Voluntary turnover of greater than 10% or total turnover of more than 15% in a position or job category would call for closer examination. Percentages, by themselves may not be relevant; raw numbers need to be analyzed as well. The goal is to keep total turnover below 10% in most instances, but the impact of retirement needs to be considered.

Difficulty recruiting would be characterized by a shortage of qualified candidates or the rejection of offers of employment due to salary.

Performance Based Pay

It is a goal to move the compensation program to **performance based pay** over time. This will require a performance evaluation and management system with a level of communication, honesty and objectivity that engenders trust within the organization.

Employees should be encouraged to make a performance difference, either individually or through teams, in which results are more important than entitlements (i.e. seniority, hierarchy, or the expectation of additional pay for changing responsibilities).

Individual contributions should serve as a significant factor in determining individual compensation. Higher performance should be rewarded by quicker advancement in the relevant pay range.

Performance at less than an acceptable level should result in no advancement in pay and requires management intervention to assist the employee in achieving satisfactory performance. Sustained and documented unsatisfactory performance is grounds for demotion or dismissal.

Questions/Thoughts

The availability of resources is critical to maintaining the program. What can be done to maintain internal equity if experiencing a lack of resources?

Is internal equity more important than maintaining external equity?

Does everybody get rewarded if the bottom of the range needs to be adjusted? How? Move the entire range? Keep everyone at least at "market" once they have reached "competence"?

Are step systems appropriate in departments with a large number of incumbents in certain positions? What about plateaus?

While the predictability that comes with step systems may be of value, compensation decisions of necessity must be tied to resource availability. Step systems that promise something that cannot be delivered due to a lack of resources may be worse than no step system at all. Consider an advancement procedure that respects both longevity and resource availability. Annual decisions in the budget process regarding COLA (pay scale adjustment) and "merit" or advancement within the range.

Is it acceptable to consider offering a valuable employee a raise to preclude him or her leaving City employment?

Should a minimum time in grade should be expected in most cases prior to promotion within a job category?